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C O N F I D E N T I A L SECTION 01 OF 02 LAGOS 000167

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SUBJECT: NIGERIA ECONOMIC UPDATE, FEBRUARY 2005

Classified By: Acting Consul General Ronald Kramer per 1.4 (b) and (d)

[11.](#) (U) This economic update includes:  
-- MTS First Wireless Management Crisis Sends US Citizen Packing  
-- Nigerian Stock Exchange Woos Real Estate Investors  
-- Virgin Atlantic Positions Itself for Vmobile Stake  
-- Banking Update - Mergers Continue Amidst Sector Uncertainty

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MTS First Wireless Management Crisis Sends US Citizen Packing  
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[12.](#) (SBU) MTS First Wireless (MTS), a local telecommunications company which is 44 percent owned by Atlanta-based MTS Inc., last week experienced a hostile management take over resulting in a near arrest of a US citizen in Nigeria, an Economic and Financial Crimes Committee (EFCC) investigation, and uncertainty for the company's future. According to a deputy manager associated with the previous management structure, three former company directors became disgruntled at the prospects of losing their jobs and of their share holdings being diluted by new investors.

[13.](#) (C) The three went to the EFCC with claims of (fraudulent allocation of shares) and corruption against MTS First Wireless. However, before the EFCC could get an investigation underway, one of the takeover managers hired local police to lock former MTS management out of the company's Lagos headquarters, arrest MTS board members, and impound MTS property such as automobiles. One of the board members was in police custody from January 19 through 24. Another, an American citizen, told Econoff he averted arrest by calling the EFCC and alerting them to the local police interference in the incident. The amcit left Nigeria for the US indefinitely on January 26.

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Nigerian Capital Market As Real Estate Financing Option  
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[14.](#) (SBU) Former Nigerian Stock Exchange (NSE) Director General, Hayford Alile, on January 31 affirmed the NSE planned strategy to woo real estate developers to the capital market. Alile told the Nigerian Institute of Estate Surveyors and Valuers (NIESV) they should turn to the capital market for long-term debt and equity financing options in return for shared investment income.

[15.](#) (SBU) Interest rates between 20 and 30 percent make long-term financing for real estate impractical. Real estate purchases are often paid in their entirety, in cash, at date of purchase. The average Nigerian is unable to save long enough to acquire the large sums of cash needed for real estate purchases. Nicholas Okoye, NSE Head of Strategy and Derivative Markets, told Econoff the NSE is developing a real estate (securitization) program to be marketed in late 2005, which will result in more affordable financing for real estate and potentially bring the NSE a large infusion of investors and investor options.

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Virgin Atlantic Positions Itself for Vmobile Stake  
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[16.](#) (U) Press reports that Vmobile, Nigeria's second largest GSM company has been having talks with Virgin Group, UK, owners of Virgin Mobile. This follows the breakdown of talks between Vmobile and Vodacom of South Africa in May 2004. Vmobile, which has over 1.5 million subscribers, has been bedeviled by a string of controversies since its management changeover from former owners, Econet Wireless International, of Zimbabwe.

[17.](#) (SBU) A contact at Vmobile confirmed Virgin Group's interest in the company, but expressed doubts of a positive outcome to investment talks between the two companies. According to them, "talks were held, but we are not too optimistic". Contrastly, some industry watchers believe a Vmobile-Virgin Mobile deal might be brokered by second quarter 2005, especially since the Virgin Group recently

clinched the deal to operate Nigeria's flag carrier, Virgin Nigeria.

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Banking Update - Mergers Continue Amidst Sector Uncertainty  
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18. (U) Access Bank and Ecobank are confident they will meet the Central Bank of Nigeria (CBN) recapitalization requirement of 25 billion naira by December 2005. Access Bank and Ecobank both hope to meet the 25 billion naira mark by building a base of 10 - 15 billion naira, then to identify one (similarly-minded) bank with which to merge. Bismarck Rewane, MD, Financial Derivatives, warns, however, the (10 plus 15) equation oversimplifies the challenges of merging banking operations.

19. (SBU) According to Fred Udoaka, Regional Manager, IBM West Africa, technology integration is the first shoal over which many merging companies stumble; yet if navigated successfully, it can be the area where merging banks will save the most money in the long run. Udoaka expressed concern that the CBN deadline may not give banks ample time for integration planning in technology and other operational areas.

110. (SBU) In separate news, the CBN in December announced that it is launching a series of investigations into several banks. The CBN is looking into allegations that banks have been financing their IPOs by loaning the investment capital needed to their customers, who later sell the shares back to repay the loans.

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